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SUBJECT: GOSS BUDGET: FISCAL CRISIS OVER BUT CORRUPTION LOOMS

1. (SBU) Summary: There are precious few bright spots in the Government of Southern Sudan's (GoSS) 2010 draft budget. On the revenue side, the GoSS remains overly reliant on oil, deriving 98 percent of its income from oil transfers. Concerning expenditures, the GoSS, as in the past, plans to spend the majority of its resources on salaries (49 percent) and operating expenses (30 percent), leaving capital expenditures significantly under resourced at only 21 percent of the budget. The capital budget and outstanding liabilities for the Sudan People's Liberation Army (SPLA) remain off the books. Extra-budgetary contracts have been deferred to out-years and continue to threaten the entire budget. Senior GoSS officials have complained that they are not able to exercise effective oversight over the budget and the specter of corruption looms over all. End Summary.

FY 2009 - Overspending and Shortchanging

2. (U) As of September 2009, provisional income for the GoSS was SDG 2.8 billion, putting the government on schedule to meet its projected full year income of SDG 3.6 billion and signaling a clear end to the fiscal crisis. This represents a dramatic improvement in resources as earlier in the year the government was only forecast to receive 80 percent of the last budgeted revenue due to the global financial crisis and the related sharp downturn in oil prices.

3. (U) The government adopted a strict austerity plan during the fiscal crisis. However, as soon as revenues rebounded, the GoSS began to overspend. Moreover, there was no transparent allocation of funds when revenues became available. As a result, powerful ministries received more than was budgeted for them, while weaker ministries were significantly short-changed.

4. (SBU) Ministries and agencies that received significantly more than was budgeted for them include the Ministry of Finance (1,109 percent - reflecting the payment of grain contracts), the President's Office (243 percent), the Ministry for Presidential Affairs (224 percent), the Ministry of Cabinet Affairs (209 percent) and the War Veterans Commission (495 percent). At the other end of the spectrum, ministries and agencies that received significantly less than their budget allocations include the Auditor General (35 percent), Ministry of Water and Irrigation (27 percent), Ministry of Animal Resources and Fisheries (36 percent), the Disarmament Demobilization and Reconciliation (DDR) Commission (17 percent), the Southern Sudan Relief and Rehabilitation Commission (SSRC) (10 percent) and War Disabled Widows and Orphans Commission (10 percent). (Note: Percentages indicate share of what they should have received by end September.)

2010 Budget --- Missed Opportunities

14. (SBU) In 2010, revenues are projected to increase 24 percent to a total of SDG 4.5 billion. The budget, which is 98 percent reliant on oil revenue, assumes an oil price of USD 60, and a drawdown of all oil revenue stabilization account (ORSA) reserves. Inexplicably, non-oil income is projected at a mere SDG 101 million, which is less than was budgeted and less than what was realized in 2009. With its improved revenue, the GoSS plans to increase expenditures by 876 million SDG, allocated almost entirely to more spending on salaries and operating costs, continuing a trend of overinvestment on recurrent costs and underinvestment in capital and development.

15. (SBU) Roughly 1 in every 5 households in Southern Sudan receives a government salary and salaries account for 49 percent of the 2010 budget. Expenditures on salaries increased in absolute terms showing that the public sector reform and right sizing efforts are not yet translating into budgetary space that can be allocated for other expenditures, such as capital and development.

16. (SBU) The president's office budget includes a SDG 43 million allocation for the President for discretionary "donations", four times greater than last year's budget. The legislative assembly includes SDG 135 million for the Constituency Development Fund (CDF), which can be spent at the discretion of Members of Parliament and includes a generous allowance for gratuities. Some MPs utilized their CDF allocation last year for beneficial projects within their constituencies. However, overall, many MPs lack the technical capacity to manage such a program.

2010 Budget - A Few Bright Spots

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17. (SBU) In support of the 2008 commitment for increased decentralization, the budget doubles the allocation at the county level from SDG 20 million to SDG 40 million. This represents an important step towards greater decentralization. For the first time, there is also an allocation of SDG 20 million for a Pension Fund in support of the pending passage of the Pensions Bill that will hopefully allow the GOSS to expedite its public service reform and right-sizing efforts. It is expected that this social safety net will largely benefit SPLA war veterans over the short to medium term.

Extra Contracts Threaten Budget

18. (SBU) The 2010 budget states that the GoSS has SDG 3.8 billion in contractual obligations, which it intends to gradually tackle, paying SDG 555 million in 2010, SDG 1.8 billion in 2011 and SDG 704 million in 2012. However, these reported contractual obligations do not include several important liabilities, in particular, SPLA contracts as well as those relating to the infamous 2008 dura (grain) scandal.

19. (SBU) The GoSS ostensibly owes SDG 6.26 billion for grain contracts. This is of course more than its entire expected revenue stream of SDG 4.5 billion. However, much of these grains were never delivered and the GoSS froze payment on these contracts in 2009. According to the Minister of Finance, the GoSS has reviewed these contracts and estimates that SDG 1.8 billion of these obligations are legitimate and in 2010, the GoSS has allocated SDG 50 million against the grain contracts. However, we have not seen the last of the grain scandal yet. The GoSS has presented its findings from its investigation into the matter to the Council of Ministers but has yet to make the information publicly available. The government is supposed to present the report to the SSLA this legislative session.

Corruption and Lack of Effective Oversight

¶10. (SBU) Members of the South Sudan Legislative Assembly (SSLA) have complained that "real power" continues to rest in the executive branch and that they are unable to exercise effective oversight over government spending. Even within the executive branch, as noted above, powerful ministries received more than was budgeted for them.

We continue to receive reports of new/new contracts being signed by individual ministers, notwithstanding the tighter regulations put in place following the grain scandal.

¶11. (SBU) For example, the budget includes payment for a SDG 137 million contract for the police, signed by the Minister of Internal Affairs as opposed to the Minister of Finance. When questioned about this matter during the Council of Ministers, the Minister of Internal Affairs reportedly said that he had received verbal approval from the Minister of Finance to conclude the contract. Perhaps more disturbing, however, is the fact that the contracted goods - uniforms, boots, and other supplies - have not arrived, according to several sources. Sources complained that even when issues such as the police contract are publicly raised, there is no accountability.

¶12. (SBU) On a few occasions, responsible individuals have been removed from their duties. However, more often than not, business continues as usual. In the waning weeks of 2009, rumors abounded that the Government was "getting serious" about tackling corruption and that those guilty of misappropriation of funds would be required to either pay back the monies or go to jail. We have yet to see any evidence of this resolve.

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